

**FERC Technical Conference
Demand Response in Wholesale Markets,**

Monday, April 23, 2007

**Measurement and Evaluation of Demand Response Resources
North American Energy Standards Board Remarks**

The North American Energy Standards Board (“NAESB”) appreciates the opportunity to participate in the FERC Technical Conference on Demand Response in Wholesale Markets. Our remarks do not specifically address the questions noted for the panel as NAESB has just begun its process for standards development in the area. These remarks do however highlight the role NAESB may play in setting business practice standards to support demand response programs and provide a status report of the NAESB related efforts to date.

NAESB Organization and Process

For the role that NAESB may play in setting business practice standards to support demand response programs, we bring an inclusive structure and a well defined process for standards development to the table – one which is accredited by the American National Standards Institute.

We are organized into quadrants representing the wholesale and retail gas and electric markets. Each quadrant is further organized into segments representing the players in each market. Recently an independent grid operator/planner segment was added to the wholesale electric quadrant. Everyone who has a role in one of the four markets should find a place in NAESB. Because of our structure, we are positioned to develop standards that are either interdependent across markets or are developed for application to several

markets. This feature of NAESB may be an important factor as we approach standards development to support demand response (“DR”) programs that have both wholesale and retail components.

Our process is open; it balances the interests of the parties operating in the market; it is public; and it is fully documented and accessible. Participation and voting in the standards development process does not require the participant to be a member in NAESB. NAESB is in the business of writing and maintaining standards. Staff provides administrative support but the standards themselves are developed by the interested industry participants.

Standards development is initiated either through our annual planning efforts or through requests we receive. In the demand response-demand side management-energy efficiency (“DR/DSM/EE”) effort, standards development was initiated through both requests and through the 2007 annual planning activity. When we begin a standards development process, we reach out to the subject matter experts and publicize the activity that we are to undertake – this was the approach used to initiate our efforts in standards development for DR programs.

There were sensitivities that arose in the initiation of our DR work that were addressed in several formation calls that highlight the NAESB process:

- NAESB will not repeat standards development activities that are already underway in other standards development groups. We hope that the standards we develop would be synergistic – complementary – to efforts already underway in other groups. We would not develop standards unless they were determined to be

useful and helpful to the industry. With the robust process and voting procedures we use, the standards would not pass muster without strong support.

- NAESB does not set policy, but instead develops standards that support the policies adopted by federal or state regulators -- or by the industry itself, through the broad acceptance of de-facto practices.
- Once standards are developed, NAESB will not advocate that those standards be adopted by any regulatory group. From a NAESB perspective, the standards are voluntary. That said, many of our wholesale standards have been adopted by the FERC both for the wholesale gas and wholesale electric markets, and some of our standards have been adopted in various states to be applied to the retail markets.

Outreach to Groups for Participation in NAESB's DR Effort

As standards require coordination between the retail markets and wholesale markets, we are uniquely organized to address such overlaps and interdependencies.

We already have a joint development process in place with the North American Electric Reliability Corporation ("NERC") to ensure that we remain coordinated in related standards development. This procedure is being used for other NERC-NAESB standards development activities such as Transmission Load Relief, e-Tagging, and Order 890 efforts. As we proceed, we can certainly employ the process as it relates to DR/DSM/EE.

In the case of DR/DSM/EE, we are fortunate that there is such a wealth of information already available through many organizations, which could provide a strong foundation for any needed standards development. We look forward to working with these groups to determine what standards should be developed.

NAESB Progress on the DR Effort

NAESB was approached to develop standards in DR/DSM/EE through both our 2007 annual planning process in late 2006 and through a request to our retail electric quadrant. The efforts were assigned to the retail gas, retail electric and wholesale electric quadrants for consideration. With the help of the Department of Energy, several members of the National Action Plan for Energy Efficiency (“NAPEE”) group and several others including our own Board and Executive Committee members, we reached out to many subject matter experts and began the process of planning our first meeting.

The meeting on April 11 took the form of presentations to prepare the basis for future discussions and then a facilitated Q&A session to begin putting boundaries around the first phase of standards development. Presentations were given by Advanced Energy, NAPEE, DOE, FERC and ISO New England. David Pickles of ICF International acted as the meeting facilitator and structured the discussion around several questions:

- What other DSM/EE/DR standards or guides currently exist (or may be in development)? What are the scope, authority, and timing of these standards?
- What is the need for a new standard? What might be the scope of a new standard, which organizations would use it, and how would it facilitate better outcomes?
- Who are the potential stakeholders, and what is the best way to engage them in the process?
- What might be the practical realities associated with developing a new standard (expense, schedule, alignment with PUC and ISO/RTO requirements, etc.)?

As a result of the presentations and the structured discussion, it was determined that the scope of the first phase of the standards development project will focus on measurement and verification of energy savings and peak demand reduction from both a wholesale and retail electric market perspective; addressing quantities – not prices.

This is not to give the impression that prices are not important. There is an interdependency of prices and quantities (“Ps and Qs” from Econ 101); however, the intent of the measurement and verification (M&V) exercise in this first phase is to focus on quantities.

The policy objectives may be different depending upon whether the reductions are to be achieved in the wholesale or retail market, and therefore the M&V protocols may be different in each market. For example, energy efficiency measures in retail markets must be sustainable for a longer period of time if the objective is to defer long-term generation investment. Demand response in the wholesale market need only be verified for as little as one hour. These two examples may represent the “bookends” of the debate that the first phase may need to consider.

NAESB Next Steps

We are in the process of scheduling the next three meetings. All will be facilitated by Mr. Pickles of ICF International and we hope to further refine the scope and then begin the process of developing standards. All of our information is on the NAESB web site and can be easily accessed through the following link: <http://www.naesb.org/dsm-ee.asp>.